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OFFICE OF REPORTS AND ESTIMATES, CIA  
FAR EAST/PACIFIC DIVISION

INTELLIGENCE HIGHLIGHTS NO. 105  
14 JUNE to 20 JUNE 1950

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The defection of the three Northern Korean representatives, sent south to propagandize in favor of "national unity", to the Southern regime is hailed as a victory for the Republic of Korea (p. 2).

A fifty percent devaluation of the Taiwan dollar in recent weeks is viewed as a significant barometer of public confidence in the future of the Chinese Nationalist regime (p. 3).

Bao Dai's intended "visit" abroad, evidently designed to bring pressure on the French in Indochina, may prove to be a severe blow to western hopes for the development of a stable Vietnam government (p. 3).



The long-rumored split in the majority Socialist Party in Burma may soon be forced by the antics of leftist extremists who are challenging the Government's attempts to win Western aid (p. 5).

(NOTE: Section III contains a digest and analysis of the Chinese Communist policy statement recently delivered by MAO Tse-tung before the Central Committee.)

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in D/FE opinion with "A" representing the most important.

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## SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

KOREA

Northern envoys desert to South--The Republic of Korea has scored an important victory in the current propaganda battle initiated by northern Korea with its "appeals" over Radio Pyongyang for "national elections" to unify Korea. On 13 June, two days after their arrest while attempting to enter southern Korea to distribute copies of a unification "appeal",

three representatives from Pyongyang switched their allegiance to the Republic and two of them delivered effective broadcasts from Seoul to northern Korea on 15 June. The three men, although not important Communist officials, had long records of loyal Communist activity and support of the northern regime. It is believed that the defections were not induced by coercion. Rather, the three men were impressed by the good treatment received from the Army, the relatively free atmosphere in the towns and villages, and the clear evidence of economic progress -- all completely opposite to their preconceptions based on Communist propaganda -- and decided that the Republic of Korea held the greatest promise for Korean unity on Korean terms.

The two who broadcast to the north described how their own preliminary observations had revealed the falsity of the Communist picture of southern Korea, and stated that they now felt Pyongyang's "unification" appeal to be "unilateral", "hypocritical", and merely designed to harass and impair the Republic's stability by attempting to make the southern regime appear responsible for splitting the nation.

Faced with this reversal, the northern regime presented a new unification "proposal" over Radio Pyongyang on 19 June. The new plan calls for a joint meeting of the northern Supreme People's Assembly and the southern National Assembly either in Seoul or Pyongyang as early as 21 June, for the purpose of drawing up a "republican" constitution and supervising nation-wide elections for a national legislative body under the new constitution.

The new plan is another move directed primarily at the independents and moderates recently elected to the southern Korean Assembly. The Communists apparently feel that these individuals are vulnerable to superficially reasonable "unification" appeals and might be induced to consider the proposals from Pyongyang seriously. The National Assembly, however, ignored an earlier Communist invitation to consider the first unification "appeal" at its opening session on 19 June, and in view of the defection of the three Communist representatives, it appears even more probable that the Communist propaganda campaign will fail to achieve any of its possible objectives.

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CHINA

Taiwan dollar weakens—Public uneasiness in Taiwan concerning Nationalist prospects is evidenced in the recent depreciation of the currency. The black market rate for the US dollar climbed to more than \$14 Taiwan to \$1 US on 13 June, up some 50 % from the previous month. According to the official statistics, there has been no expanding issue of currency to account for this depreciation. Despite strong pressure from the business community, the Nationalist government has thusfar adamantly held note circulation below the legal limit of 200 million Taiwan dollars. The depreciation, instead, apparently originates in a strong demand for US dollars and gold on the part of persons anxious to remove their assets from Taiwan.

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Coupled with the depreciation in the Taiwan currency, the failure of the recent Nationalist bond drive has underscored public doubts in Taiwan, following the loss of Hainan and the Chou Shan Islands. After setting a goal of 90 million Taiwan dollars, the Nationalists had to acknowledge the failure of their bond drive when the public refused to subscribe to more than half the figure. Ultimate redemption of the bonds hinges, of course, on the continued existence of the Nationalist government, and the reluctance to buy the bonds derives in large part from public misgiving on this point.

In the coming weeks, the financial market in Taiwan may serve as a rough barometer of confidence in the Nationalist government. As the gold and foreign exchange resources of the government diminish, it is to be expected that confidence will ebb, and public anxiety to dispose of all assets that represent Nationalist government obligations will be reflected in declining quotations for the Taiwan dollar. If the public should come to suspect — and grounds exist to justify the suspicion — that the Nationalists have secretly expended some of the gold allocated for currency backing, the depreciation of the Taiwan dollar may take on panic proportions. The government, for its part, may seek to avert a precipitate slump by selling gold and US dollars for Taiwan dollars. A more likely course, however, — dictated by the necessity of conserving its gold and foreign exchange resources — will be to let the Taiwan dollar find its own level. If the military issue continues unresolved, official circumspection in thus husbanding the diminishing financial resources should assure sufficient funds to continue operations through 1950.

INDOCHINA

Bao Dai plans walkout—The Chief of the Veitnam State, Bao Dai, has shown profound discouragement over the Vietnamese situation in recent days and has decided to leave Vietnam for what may develop into a "stay-away" strike designed to induce French concessions. Bao Dai has

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told US officials in Saigon of his belief that the French are losing ground militarily and have abandoned all plans for a political solution of the Indochina dispute. Refuting the much-reiterated French contention that the Vietnamese are unwilling or unable to take advantage of "powers" already granted them, Bao Dai stated that close French control of finances makes it impossible for any genuine Vietnamese Government to function or to develop popular support. Bao Dai insisted that the French are afraid to take any real steps toward resolving these problems, while indicating his understanding of the US interest in France as an ally in Europe, stated that the US must view Vietnam as an Asian problem. In Bao Dai's opinion, only trivial results are to be expected from the forthcoming conference of delegates from the three Indochinese states and France.

It is not improbable that Bao Dai has, to some extent, overemphasized his dissatisfaction in an effort to induce the US to bring pressure to bear on France. Nevertheless, his withdrawal from Vietnam at this time would be a severe blow to hopes for the development of a stable non-Communist regime in Indochina. Bao Dai has generally been recognized as the unifying agent who has made some degree of cooperation possible among the bickering and mutually suspicious elements which have professed adherence to his government, and his departure would severely shake the young nation's structure.

Implied criticism of the French on Bao Dai's part can be expected to swell the clamor for real independence and to stimulate the movement for scrapping the 8 March Agreements. The stability of the Tran Van Huu cabinet will be gravely shaken inasmuch as Huu, a man thoroughly reliable from the French point of view but generally unpopular, was appointed by Bao Dai in an effort to appease the French anxieties which had been aroused by the national independence line of the preceding cabinet. Unless the French Government drastically altered its policy, it is doubtful whether the state could be kept alive except as an appendage of the French administration in Indochina.

Bao Dai's removal from the Indochina scene would preclude any further Asian support for the Western effort there and would undermine the effectiveness of the US aid program.

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BURMA

Grounds for Socialist split appearing---While there have been periodic rumors of an impending split in the influential Burma Socialist Party (BSP), which makes up the majority in Parliament, only recently has there been any outward indication of such a possibility. It now appears that fragmentation of the BSP over the question of Burma's orientation in the cold war is a possibility in the near future. The Burmese Government, supported by a majority of the Socialists, has espoused a foreign policy of neutrality between East and West, but has shown increasing willingness to seek and accept Western economic and military assistance. The left wing minority of the BSP, however, has adopted a strong pro-Soviet position in opposition to the Government, although it continues to denounce the Burmese Communists as vigorously as any anti-Communist group in Burma.

The left wing's attitude is most clearly demonstrated by the blatantly communist-line editorials of the Socialist newspaper. A May Day speech by Thakin Lwin, president of the Socialist-sponsored Trade Union Congress (Burma), also criticized the Government for not adhering to its announced policy and for becoming too friendly with the West. Lwin advocated closer relations with the USSR and its satellites, at the expense

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of the Western powers, and recommended affiliation of his labor organization with the WFTU.

The Burmese Government has apparently been somewhat perturbed by this turn of events, and Government attempts to placate this extremist element include taking steps to establish diplomatic relations with the USSR and other Eastern European countries, while continuing to negotiate for aid from the West. Socialist leaders, while expressing dissatisfaction with the antics of the irresponsible elements of their party, seem more concerned with the timing rather than the substance of their actions. It seems likely, therefore, that Government and Socialist leaders will attempt to muzzle their embarrassing colleagues, but will make every effort to avoid an open party split, in the hope that the entire matter will blow over without damaging Burma's relations with either Communist or non-Communist nations.

If the leftists persist in their anti-Government activities, however, the Socialists appear to have no alternative but to force their withdrawal from the party. In such an eventuality, it is believed that most Socialists will support the Government, but not without considerable misgivings. As for the splinter group, it probably would not go underground or join the Burma Communist Party but instead would constitute a raucous minority group advocating acceptance of the international Communist position and capable of attracting support from the Socialist majority if for any reason they should become disillusioned with the Government.

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## SECTION III. MAO Tse-tung's Report to the Central Committee

The Chinese Communists' latest major policy statement, a report delivered by MAO Tse-tung to the Central Committee of the Party on 6 June, frankly acknowledges the many problems which presently confront Communist China and expresses full confidence in their eventual solution. The major points of MAO's statement are:

Economic: Steps are being taken to alleviate famine, unemployment, and general economic dislocation, but a "fundamental turn for the better..." in the economic situation cannot be expected for some three years. Completion of agrarian reform in an orderly manner, a "readjustment of industry and commerce," and "large-scale" reductions in Government expenditures are necessary prerequisites to this basic economic upswing. A change should be made from the present policy of requisitioning the surplus property of rich peasants to a policy of "preserving a rich peasant economy in order to help the early restoration of production..." Further, the tax burden must be lightened and the idea of the "early elimination of capitalism...is wrong and unsuitable to the conditions of our country." (A distinction is made between the old, well-consolidated "liberated" areas and the newly-occupied regions of South and West China, which suggests that socialistic planning may be pushed at an early date in old areas, but postponed in the new, perhaps for a considerable period.)

Administrative: The Party, now grown to a membership of 4½ million, contains "careerist" (i.e., opportunist) elements which must be cleaned out. In future recruitment of Party members, the proportion of workers in the ranks must be increased. The need for increased self-criticism among Party and government workers is emphasized, as well as for strengthening sympathetic ties between the leaders and the led, systematic educational reform and further development of the work of the People's Conferences of All Circles.

Military: Communist consolidation is being hampered by the activities of "imperialist"-supported Kuomintang agents and "more than 400,000 bandits are yet to be annihilated." The "resolute suppression" of these elements is called for, although leniency is to be exercised in the case of those who are forced to act as accomplices and are not the principal culprits. Regarding Taiwan and Tibet, the "liberation" of these places will be "a serious task". (Unlike the Party's 1950 New Year's message, this statement does not commit the Communists to the conquest of these areas in 1950.) A partial demobilization of the Army (beginning in 1950) is called for, as a major step toward reducing Government expenses. Such demobilization must not be undertaken, however, to the detriment of remaining military objectives.

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Significance: Taken as a whole, MAO's statement reflects the Chinese Communists' confidence in the security of their position, despite both serious internal problems and a recent growth of popular hostility to the regime. Although economic hardships have been the principal cause of popular discontent, MAO is willing to go far toward explaining the unhappy economic facts of life to the Chinese people. There is no suggestion of deep concern and no attempt is made to allay discontent by making promises of early Communist-achieved prosperity or of outside aid from any quarter. Instead, the intention is to encourage the more enterprising and productive elements of Chinese society, such as prosperous peasants and businessmen, by calling for changes favorable to their interests and by reaffirming the doctrine of "New Democracy", which claims that Chinese socialism is a distant, not an early, goal.

MAO's comment on "careerist" elements within the Party, and the need for more self-criticism and closer relations with the people, adds little to past Communist pronouncements on these matters. Deficiencies in this sphere have clearly impeded the smooth implementation of the Communist "take-over" program and have played no small role in the recent decline in the regime's prestige. Nonetheless, no major purge of the Party is anticipated at this time. Although the Party's strength has doubled since 1947, even now it represents only one percent of China's population, a size too small for its job. An all-out effort at this time to achieve the Stalinist ideal of a small, disciplined and dedicated Party membership would be premature and would diminish, rather than augment, the Chinese Communists' capabilities for consolidating control.

The screening of "careerists" probably will not affect more than a small proportion of the present membership, and continued recruiting is likely to restore the losses. While MAO's statement indicates that the Communists are keenly aware of their administrative weaknesses and are taking what steps they can to relieve the situation, there is no suggestion of fear that the regime will flounder on this problem.

MAO's estimate of 400,000 bandits still to be suppressed by the Communists is believed fairly accurate. Most observers, however, are in accord with his implied belief that the guerrillas, while a nuisance of considerable magnitude in some areas, offer no real threat to Communist control of the mainland.

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